

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6096

BILL NUMBER: HB 1214

NOTE PREPARED: Jan 31, 2013

BILL AMENDED:

SUBJECT: Sales and Use Tax Exemption.

FIRST AUTHOR: Rep. Messmer

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a state Sales and Use Tax exemption for the sale of enterprise information technology equipment that qualifies for the personal property tax exemption in a high-technology district area.

(The introduced version of this bill was prepared by the Interim Study Committee on Economic Development.)

Effective Date: July 1, 2013.

Explanation of State Expenditures: This bill could increase administrative costs of the Department of State Revenue (DOR). The DOR may need to make adjustments to Sales Tax forms to incorporate the exemption.

Explanation of State Revenues: *Summary:* The total exemptions that may be claimed under the bill is indeterminable and depends on the number of qualified businesses that locate in high-technology district areas as well as the size and scope of their investments in enterprise information technology (IT) equipment. The exemption is effective for transactions beginning in FY 2014. A \$100 M sale of enterprise IT equipment in a high-technology district area would result in a Sales Tax exemption of \$7 M.

The net revenue impact of exempting sales of certain enterprise IT equipment depends on the extent to which revenue from other taxes attributable to the investment in enterprise IT equipment is impacted. However, if the investment would have occurred in the absence of the exemption, the state incurs a revenue loss equal to the Sales Tax collections foregone due to the exemption.

Background: In CY 2011, U.S. investment in equipment and software in the information and data processing services sector was \$38.7 B, an increase of 5.4% from CY 2010. Based on Indiana's share of U.S. Gross Domestic Product (GDP) in that industry sector, it is estimated that \$175 M of that investment occurred in Indiana. The information and data processing services industry in Indiana has declined at an average rate of 1.4% since CY 2004.

Enterprise IT equipment includes "(1) hardware supporting computing, networking, or data storage functions, including servers and routers; (2) networking systems having an industry designation as equipment within the 'enterprise' or 'data center' class of networking systems that support the computing, networking, or data storage functions; and (3) generators and other equipment used to ensure an uninterrupted power supply to equipment described in subdivision (1) or (2)."

In FY 2011, total state Sales Tax revenue was about \$6.3 B. Sales Tax revenue is deposited in the state General Fund (99.848%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

Explanation of Local Expenditures:

Explanation of Local Revenues: Local revenues would decrease to the extent that a local unit receives funds from the Commuter Rail Service Fund or the Industrial Rail Service Fund.

State Agencies Affected: DOR.

Local Agencies Affected:

Information Sources: U.S. Bureau of Economic Analysis; *Indiana Handbook of Taxes, Revenues, and Appropriations*.

Fiscal Analyst: Lauren Sewell, 232-9586.